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The ideal situation is to have sufficient supplies on hand for a given period, and at the same time prevent the over- or under-stockpiling of supplies.

Purchasing includes the initial requisitioning for supplies and materials, price inquiry, price comparison, and the signing of purchase contracts. In essence, the purchasing operations represent about 50 percent of the work involved in the control of supplies and materials.

The remaining phases in control of supplies and materials, such as inspection, storage, examination, repairing, fiscal planning, statistical works, correspondence, and hiring are routine operations.

Types of Operations

Operations are divided into decentralized and centralized operations. Under a decentralized operation, a given enterprise establishes its own supplies and materials control department. The enterprise functions independently from any other higher government organ. An enterprise adopting the decentralized system prepares its own supply of procurement plans. Such an enterprise exercises independent control over the distribution and allocation of its supplies and materials.

Under a centralized operation, the control of supplies and materials in a given enterprise is jointly supervised by the enterprise and a higher governmental organ. An enterprise adopting this system is responsible to the higher governmental organ for submitting periodic reports.

Direction

Since the organizational framework of enterprises varies considerably, no uniform method of direction can be adopted. However, regardless of the type of organization, the delegation of authority in a given enterprise extends downward from the highest official. For instance, in a state-operated industry such as the railway industry, the delegation of authority extends downward from the minister who is the highest official in the industry.

The supplies and materials control organ in a given enterprise may have one of the various designations. This organ may be designated an office, bureau, main bureau, department, or main department. However, in practically all cases, it is designated as a bureau. Therefore, the term "supplies and materials control bureau" is adopted as the standard term. Such a bureau is headed by a director. A given supplies and materials control bureau may be further subdivided into various components according to functions. Among the various functions are distribution, purchasing, fiscal planning, supervision, personnel placement, and correspondence.

A given bureau should establish a delivery station if such a station facilitates its operations. A network of such delivery stations could facilitate services on a nationwide basis. The organization in a given delivery station should consist of planning, fiscal, personnel, and correspondence divisions. The delegation of authority should also extend downward from the highest official.

Stockpiling of Supplies and Materials and Procurement Funds

The stockpiling of supplies and materials is determined by the amount needed over a given period of operation. For instance, if it is estimated that a given enterprise needs 10 billion yuan's worth of supplies per month,

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then it is feasible to establish a 30-billion-yuan reserve as supply procurement funds, 10 billion yuan as monthly supply replacement funds, and 5 billion yuan as reserve for insurance fees, depreciation, interests, and operational and transport costs. These funds total 46.5 billion yuan. This amount is called the supply procurement fund of working capital.

Annual Capital Turnover Rates

In the example cited above, a given enterprise would need 120 billion yuan's worth of supplies and materials per year. The annual capital turnover rate for this enterprise is calculated by dividing the working capital, or 46.5 billion yuan, into 120 billion yuan. Thus, the annual capital turnover rate of this enterprise is 2.58 percent, i.e., its working capital of 46.5 billion yuan will be applied for supply procurement 2.58 times per one year of operation.

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